Here we go again

ASIAN stockmarkets were among the most exuberant of the celebrants who briefly rejoiced at the massive financial interventions by American and European governments. In relief that global finance seemed to have survived its near-death experience, Hong Kong's equities climbed more than 10% on October 13th. Next day, Tokyo's soared a record 14%. But as elsewhere, these rallies proved an interlude in the sharp downward lurch. On October 16th Tokyo's Nikkei index slumped 11%. Relief that catastrophe seemed to have been averted was no substitute for economic confidence. A region itself buffeted by financial crisis in 1997-98 has not forgotten that economic pain long outlasts financial-market rout.

That earlier crisis started with local worries about Thailand's widening current-account deficit and a property bubble in Bangkok. It astonished the world with the speed and extent of the contagion that spread to other Asian countries, and emerging markets elsewhere, such as Russia and Brazil. This month's panic had spread even further in Asia, shaking countries that by and large sailed through the late 1990s such as India and Australia.

On October 14th Kevin Rudd, Australia's prime minister, cited "the economic equivalent of a rolling national-security crisis" and announced that his government would guarantee all deposits in Australian banks and other savings institutions for three years. He followed this with a spending stimulus worth A$10.4 billion ($7 billion), much of it directed at people likely to spend the money rather than hoard it: first-time homebuyers, the poor and pensioners. On October 14th Hong Kong issued a blanket guarantee of all bank deposits, with the aim of preventing the kind of capital flight that wrought havoc with the territory's capital markets during the 1997-98 crisis. Its monetary authority also announced a new facility for providing capital to the territory's banks, even though they look robust enough. But it was in the countries worst affected last time—Thailand, Indonesia, Malaysia, the Philippines and South Korea—that the echoes seemed most eerie.

In many ways, the region is far better placed to withstand the present shock. Its banks are stronger, its currency regimes less rigid, its foreign-exchange reserves bigger. On the other hand, a decade of accelerated globalisation has seen every country integrated even more closely into the world economy. None can hope to be immune from a global slowdown. The region may not face the sort of meltdown experienced at the end of the 1990s. But prospects for growth look much bleaker than they did even a fortnight ago. Exports to rich countries still matter, albeit less than they did. And so does trade finance, which lubricates Asia's trading machinery. Ships are sitting empty in big Asian ports, their cargoes piled up on the dockside because no bank will guarantee them. Despite strong balance sheets, Asian banks may need more capital if they are to make up for a shortage of Western trade credit.

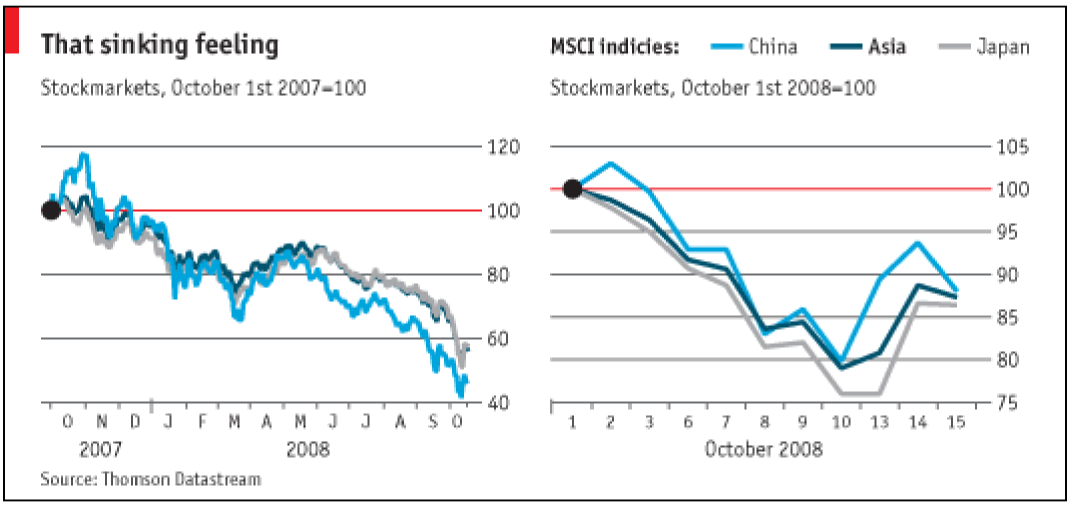
Facing such worries, anger at the apparent hypocrisy of governments in America and Europe has been muted. Asian leaders have complained that they were blamed for bringing the last crisis on themselves, with their misguided exchange-rate policies, opaque financial systems, profligate spending and corrupt politics. The bail-outs by the IMF demanded fiscal austerity at a time of economic hardship. But, since international institutions offered the only financial lifeline, most Asian governments were forced to suck up IMF orthodoxies.

True to form, Mahathir Mohamad, a former Malaysian prime minister, who was among the West's harshest critics a decade ago, has not resisted gloating. On his blog, he recalls how "the Americans" said Asian companies should have been allowed to go under, but now Americans are preparing bail-outs and nationalisation for their own firms.

China, too, which survived the last crisis fairly unscathed thanks to capital controls and a state-run banking system, has indulged in a bit of point-scoring. Its refusal to allow a faster appreciation of the yuan has been blamed by some for helping build up the huge global financial imbalances that now seem to be unwinding so fast. From China's perspective, the meltdown vindicates the cautious pace of its liberalisation. But its officials have tried not to sound too smug. Like their counterparts elsewhere in the region, they know it is too early to declare victory. Chinese journalists say the official media have been ordered to tone down or avoid reports about the economic impact on China. As during the earlier crisis China is trying to appear helpful. On October 8th it timed its latest interest-rate cut (of 0.27 percentage points) to coincide with concerted rate-cutting by other central banks. With its massive foreign-exchange reserves, China, like Japan, the other big Asian creditor nation, has too big a financial stake in the global system to feel anything other than anxiety at the possibility of an implosion.

Marking markets

So across Asia, governments have taken measures to allay disquiet (see article). In China the stockmarket has lost two-thirds of its value since last October; the property market is wobbling and growth is slowing. These trends all predated the latest panic. But the government has had to go further to shore up confidence. It tried to revive the stockmarket by abolishing a tax on share-buying and investing in the market itself. Japan, despite the giddy plunge of the stockmarket from October 8th-10th and the bankruptcy of a middling life insurer, Yamato Life, is confident that its financial system, recapitalised at massive public expense a decade ago, is robust enough to survive the latest shocks.



Japan's money markets have gummed up far less than those in America and Europe. Even so, at a time when its economy is almost certainly in recession, the authorities are taking few risks. Backed by $1 trillion of reserves, the Bank of Japan has promised unlimited dollar funds to the markets. And the government has announced measures to support regional banks. It has also promised not to sell its remaining shares in the country's biggest banks for the time being, and eased conditions for companies to own shares in each other as a way to support the stockmarket.

This year South Korea's won has sunk more than any other Asian currency. The country's current account, in surplus for many years, has slid into deficit. Banks have made a high number of loans in proportion to their deposits. Households are deep in debt and so are many smaller companies (many in dollars). In a radio address on October 13th President Lee Myung-bak insisted that the banks were sound and pointed out that the currency was backed by far larger foreign reserves than it was a decade ago. He begged South Koreans to cut down on foreign spending and energy use, and to increase spending at home.

In India, the closeted banking system is not heavily exposed to the financial crisis. Its most adventurous bank—ICICI—is the only one so far to cause jitters. Long lionised for financial sophistication, the bank is now associated with Western financial sophistry. After its share price halved in a month, it had to send text messages to its depositors reassuring them that their money was safe. Statements of support from the Reserve Bank of India, India's central bank, and the rating agencies have helped restore confidence.

Indonesia's government intervened more drastically, halting share trading for three days after sharp falls in share prices and the rupiah. When the stockmarket reopened on October 13th, the government strengthened its guarantee of bank deposits to deter a run on banks.

Reasons for gloom

In the less panicky mood that prevailed this week, such measures appeared to have bolstered confidence. They did little, however, to ease two longer-term worries.

The first concerns countries that are embroiled in political upheaval and which may be ill-placed to cope with the economic storms to come. The second is how severe those storms are going to be.

Thailand, riven by conflict between the elected government and powerful protesters (see article) is especially vulnerable. But Malaysia, whose prime minister says he will step down, also has its political worries. In the Philippines, the latest in a series of doomed but distracting attempts to impeach the president, Gloria Macapagal Arroyo, is gathering steam.

Even if these dangers can be skirted, the region is going to experience a sharp slowdown, though perhaps only Japan and Singapore are already in recession. In China, the slowing of the economy, caused mainly by a fall in net exports, could become a serious worry in the months ahead. Most economists expect GDP growth to fall only to 8-9% next year (from 10.1% in the second quarter of this year and 12.6% a year earlier)—hardly a grinding halt. Most Chinese economists are confident that if the slowdown is sharper, the government can still spend its way out of trouble. But an article last month in a magazine published by a government think-tank warned that a severe slowdown could present China with the kind of social turbulence that ravaged Indonesia in 1998.

China's growth is increasingly important for the region. This month Australia 's Mr Rudd rang the Chinese prime minister, Wen Jiabao, to ask about projections for China's growth, and whether its strong demand for Australia's minerals was likely to continue. On getting an upbeat answer, Mr Rudd concluded that China was now "critical for Australia's continued economic performance". It is also the biggest trading partner for Japan and India. But, according to the Asian Development Bank, 60% of Asia's exports (not including Japan's) still go to America, the European Union and Japan. A decline of one percentage point in America's growth rate, the bank calculates, knocks 0.3 percentage points off Asia's. That may be optimistic.

To date, one constant since the 1997-98 crisis has been the absence of a co-ordinated regional response. Out of that crisis, a self-help initiative among the region's central banks known as the "Chiang Mai initiative" was launched. But it seems designed to fight the last war—a concerted attack on a country's currency—rather than today's wider financial malaise.

Coincidentally, Asia's leaders will be meeting counterparts from Europe in Beijing on October 24th for the biennial "Asia-Europe" meeting, ASEM. The Philippines' Mrs Arroyo has in vain suggested holding a crisis summit of the Asian countries on its margins. She also boasted this week of an agreement to set up a fund to buy toxic debts from banks in South-East Asia, China, South Korea and Japan. But the World Bank, the alleged source of some of the money, and the other countries involved, could not recall such an agreement. So she managed only to heighten the impression of ill-co-ordinated floundering. At least China, the host of the ASEM talk-shop, has overcome its initial reluctance to put impending financial collapse on the agenda. It seems to have realised that it would seem odd indeed if Asian leaders spent much time talking about anything else.

Here we go again. The economist, London, n. 8602, v. 389, Oct 18-24. 2008. Disponível em: < http://www.economist.com/world/asia/displaystory.cfm?story_id=12437723 >. Acesso em 20 out. 2008.